

State of Illinois
ILLINOIS COMMERCE COMMISSION

4

45625

occupied by the above facilities shall be secured from landowners and/or public authorities as and where required by law.

- By order of the Commission at Springfield, Illinois this 3rd day of February, 1959.

- (Signed) SHERMAN H. CANTY Secretary

HOLIDAY HILLS UTILITIES, INC.

Direct Testimony of

Erin L. Nicholas

1 **Q. Please state your name, occupation and business address**
2 **for the record.**

3 A. My name is Erin L. Nicholas. I am a Regulatory Analyst
4 for Utilities, Inc. and subsidiaries, including Holiday
5 Hills Utilities, Inc. (HHUI). My business address is 2335
6 Sanders Road, Northbrook, Illinois.
7

8 **Q. Please state your professional and educational**
9 **background and experience.**

10 A. I have been employed by Utilities, Inc. since 1996.
11 Since that time I have been involved in both the
12 accounting and rate-making aspects of the utility
13 business. I have been responsible for rate filings in
14 Florida, New Jersey, North Carolina, Pennsylvania and
15 Virginia.
16

17 I earned a Bachelor of Business Administration degree in
18 accounting from the University of Notre Dame in South
19 Bend, Indiana. I am currently enrolled in the Masters
20 of Business Administration Program at Kellogg Graduate
21 School of Management at Northwestern University in
22 Chicago, Illinois. I am a Certified Public Accountant
23 and I have attended the NARUC Utility Rate Seminar as
24 well as other related independently sponsored seminars.

1

2 **Q. Please explain your job responsibilities at Utilities,**
3 **Inc.**

4 A. My responsibilities include: financial analysis of
5 individual subsidiaries of Utilities, Inc., preparation
6 of applications for rate relief, facilitation of
7 commission audits, and the submission of financial
8 testimony and schedules to support a request for an
9 increase in rates.

10

11 **Q. Please describe Utilities, Inc.**

12 A. Utilities, Inc. (UI), the parent company of Holiday
13 Hills Utilities, Inc., has been involved in the water
14 and sewer industry for over 35 years. UI is a privately
15 held company that owns approximately 75 operating
16 companies. These facilities are spread throughout 16
17 states including: Illinois, Arizona, Florida, Georgia,
18 Indiana, Louisiana, Maryland, Mississippi, North
19 Carolina, Nevada, New Jersey, Ohio, Pennsylvania, South
20 Carolina, Tennessee, Virginia.

21

22 **Q. Please describe Holiday Hills Utilities, Inc.**

23 A. Holiday Hills Utilities, Inc. is a wholly owned
24 subsidiary of Utilities, Inc. Utilities, Inc. is in the
25 process of incorporating HHUI under the laws of the
26 State of Illinois. Because this new subsidiary had not
27 been formed at the time the purchase agreement was
28 signed, concurrent with the approval to purchase,
29 Utilities, Inc. requests permission to assign the rights
30 under the agreement to this new corporation. A copy of

1 the certificate of incorporation will be submitted as a
2 late filed exhibit once it is obtained.

3
4 HHUI will provide water service to the 240 water
5 customers in the Holiday Hills subdivision near Island
6 Lake in McHenry County, Illinois. The system is situated
7 approximately 12 miles south of Utilities, Inc.'s
8 Northern Properties operations. The water system is
9 approximately 42 years old. HHUI requests the
10 Commission to grant to it a Certificate of Public
11 Convenience and Necessity to operate and maintain the
12 water system and to engage in the business of furnishing
13 water public utility service in the Community Service
14 Corporation's service area. In addition, HHUI requests
15 that the current certificates held by Community Service
16 Corporation be canceled. HHUI further requests that
17 this area be defined in the Order entered in this
18 proceeding and that the Certificate of Public
19 Convenience and Necessity be effective from and after
20 the closing date of the purchase transaction.

21
22 **A. Will the utility business be operated in a substantially**
23 **unchanged manner?**

24 A. Yes, HHUI intends to continue Community Service
25 Corporation's public utility business in a substantially
26 unchanged manner, except that the business will be
27 operated as a subsidiary of Utilities, Inc. As such,
28 the utility will be operated within the long-term goal
29 of providing high quality water service. To accomplish
30 this, the facilities will be maintained to a high

1 standard, certified operators will be employed and
2 necessary capital expenditures will be made.

3

4 **Q. Is the proposed transfer in the public interest?**

5 A. Yes, this transfer is in the best interest of the using
6 and consuming public. Utilities, Inc. has over 35 years
7 of experience in the utility business. Utilities, Inc.
8 was formed in 1965 with the objective of acquiring small
9 water and sewer companies. These companies are often
10 troubled and undercapitalized. They are primarily
11 developer owned with little experience in operating
12 utilities. Utilities, Inc. provides safe and reliable
13 water and sewer service to approximately 231,000
14 customers in 16 states resulting in significant
15 operational economies of scale. HHUI's customers will
16 certainly benefit from these economies of scale and the
17 level of expertise gained by their affiliation with UI.
18 While operating only water and sewer systems, UI
19 personnel have the ability to meet the challenges of the
20 rapidly changing utility industry. One major advantage
21 is that capital is available for improvements and
22 expansion at reasonable rates. In addition, the
23 Utilities, Inc. group of companies has national
24 purchasing power on expenditures such as insurance,
25 vehicles and meters which result in lower costs to
26 ratepayers. In addition, Utilities, Inc. has both the
27 regulatory experience and financial wherewithal to
28 ensure consistent compliance with environmental
29 protection regulations. Utilities, Inc.'s experience in
30 operating water and sewer utilities will provide depth
31 to HHUI on both a day to day basis as well as during

1 emergencies. For these reasons, the public interest
2 would be best served by the transfer of the water
3 franchise to HHUI.
4

5 **Q. Does HHUI wish to enter into the service contract with**
6 **Water Service Corp.?**

7 A. Yes, it does. The Commission approved the existing
8 contract for all of Utilities, Inc.'s Illinois
9 subsidiaries on March 14, 1979. This agreement was
10 slightly amended and again approved by the Commission in
11 Docket No. 94-0157. The Order states that Staff
12 recommends that the service agreement method utilized to
13 allocate costs be reviewed for reasonableness and
14 appropriateness in subsequent rate cases, and that in
15 all other respects, Staff supported Commission approval
16 of the amendment. Detail regarding the amended service
17 agreement can be found in that docket. Please see a copy
18 of the WSC agreement attached as **ELN Exhibit 1**.
19

20 **Q. Please describe the relationship between Utilities, Inc.**
21 **and Water Service Corp.**

22 A. WSC is the affiliated service company that provides
23 centralized billing, accounting, data processing,
24 engineering, management, and regulatory services for the
25 greater than 350 water and wastewater systems supported
26 by the 75 operating companies held by Utilities, Inc.,
27 including Holiday Hills Utilities, Inc.
28

29 One of the primary benefits of the Water Service Corp.
30 agreement will be HHUI's access to a large pool of human
31 resources from which to draw upon. As indicated above,

1 there are experts in various areas such as construction,
2 engineering, operations, accounting, regulation, data
3 processing, customer service, etc.

4
5 **Q. Does WSC charge a management fee or profit for these**
6 **services?**

7 A. No, it does not.

8
9 **Q. How are costs assigned to the individual companies?**

10 A. Pursuant to the approved contract, wherever practical,
11 the costs of these essential services are typically
12 assigned directly to the company that benefits from the
13 service provided. However, costs that cannot be
14 identified to a specific company are allocated to the
15 operating companies primarily based on the number of
16 customers served. This methodology has been in use and
17 accepted by each affected regulatory jurisdiction for
18 many years.

19
20 **Q. How will the WSC allocations change as a result of this**
21 **acquisition?**

22 A. The addition of HHUI to the Utilities, Inc. group of
23 companies will result in a 0.137% allocation to HHUI and
24 a very insignificant decrease of customer allocation
25 percentages to all other utilities, less than a fraction
26 of one percent. This is shown on the attached **ELN**
27 **Exhibit 2**, page 2 of 2.

1 Q. Will the system be operated using existing personnel of
2 Water Service Corp.?

3 A. Yes it will. Water Service Corp. employs approximately
4 11 full-time Illinois operating personnel. This will
5 provide depth to HHUI. Should an employee become ill or
6 leave the area on vacation, another employee can be
7 brought in. In addition, in emergencies additional
8 staff will be made available.

9

10 Q. How will the expenses for HHUI change as a result of this
11 purchase?

12 A. Expenses may increase as the system is brought up to our
13 operating standards. The exact amount of any increase
14 is unknown since we are not operating the system at this
15 time. However, we expect maintenance and repair expense
16 as well as capital costs to increase. Since a new 4"
17 well has recently been put in service, electric expense
18 is expected to increase to provide additional power. In
19 addition, plans to install approximately 20,000 gallons
20 of new storage capacity will be considered and the
21 current 10,000-gallon storage tank will likely be moved.
22 Depreciation expense will increase as a result of the
23 above-mentioned capital projects and improvements.
24 Furthermore, WSC expenses will be incurred on behalf of
25 HHUI as discussed above. Please see **ELN Exhibit 3** for a
26 comparison of the previous owner's 1999 operating
27 statement and an estimated pro forma operating statement
28 as a subsidiary of Utilities, Inc.

29

30

31

1 Utility Plant Acquisition Adjustments. This rate equals
2 the depreciation rate.

3

4 **Q. Is HHUI proposing a rate change at this time?**

5 A. No, HHUI proposes to provide water service pursuant to
6 the rates, rules, regulations, and terms and conditions
7 of service which have been approved by this Commission
8 and which are currently in effect in the service area,
9 subject to any changes hereafter approved by the
10 Commission, and to continue all services currently
11 provided by Community Service Corporation without
12 interruption or change. The Company will file new
13 tariff sheets under the name of Holiday Hills Utilities,
14 Inc.

15

16 However, it is likely that the system will require a
17 rate adjustment once various improvements are made and
18 an operating history is obtained.

19

20 **Q. Should the proposed transfer be approved by the**
21 **Commission?**

22 A. Yes. The transfer is in the best interest of the
23 customers as noted above.

24

25 **Q. Does this conclude your testimony?**

26 A. Yes, it does.

AGREEMENT

Agreement dated November 21, 2000 between Water Service Corp., a Delaware corporation (hereinafter called the "**Service Company**") and **UTILITIES, INC. - HOLIDAY HILLS UTILITIES, INC.** (hereinafter called the "**Operating Company**");

WHEREAS, both the Service Company and the Operating Company are subsidiaries of or affiliated with Utilities, Inc., a Delaware corporation (hereinafter called the "**Parent**"); and

WHEREAS, the Service Company maintains an organization which includes among its officers and employees, persons who are familiar with the development, business and property of the Operating Company and are experienced in the conduct, management, financing, construction, accounting and operation of water and sewer properties and are qualified to be of great aid and assistance to the Operating Company through the services to be performed under this Agreement; and

WHEREAS, the Service Company has or proposes to enter into agreements similar to this Agreement with certain affiliated water and/or sewer companies (hereinafter referred to collectively as the "**Operating Companies**"); and

WHEREAS, the services to be rendered under this Agreement are to be rendered at cost and without profit to the Service Company;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties hereto agree as follows:

The Service Company will furnish to the Operating Company, upon the terms and conditions hereinafter set forth, the following services:

- A. EXECUTIVE: The principal executive officers of the Service Company, such as the Chairman of the Board, President and Vice Presidents, and Treasurer will assist and advise the Operating Company in respect to corporate, financial, operating, engineering, organization, regulatory, and other problems. They will keep themselves informed in regard to the operation, maintenance and financial condition of, and other matters relating to, the Operating Company through contacts with the officers, directors and other representatives of the Operating Company. Such officers of the Service Company will visit the property of the Operating Company when necessary to the proper furnishing of the services provided for in this Agreement. They will also supervise the personnel of the Service Company to the end that services under this Agreement shall be performed efficiently, economically and satisfactorily to the Operating Company.

- B. ENGINEERING: The Service Company will supply engineering services as required in all areas of design, construction, operation and management of the Operating Company.
- C. OPERATING: The Service Company will furnish competent personnel to perform and/or control all normal operating functions, including pumping, treatment, and distribution as well as maintenance of all equipment and facilities. These responsibilities will include testing and record keeping to insure compliance with all state and local regulatory agency requirements.
- D. ACCOUNTING: The Service Company will provide total accounting service, including bookkeeping, payroll, tax determination, financial statement preparation, budgets, credit, P.S.C. annual reports, etc. Periodic analyses will be made for purposes of planning and measurement of efficiency.
- E. LEGAL: The Service Company will employ general counsel as necessary to advise and assist it in the performance of the services herein provided for and to aid the operating company in all matters where such assistance may be desired.
- F. BILLING AND CUSTOMER RELATIONS: The Service Company will handle all billing and collections. It will serve as the link between the customer and the Operating Company in all areas such as new accounts, deposits, meter reading, inquiries, and complaints.
- G. CONSTRUCTION: The Service Company will perform directly or supervise all construction, including customer connections, meter installations, main extensions, plant expansions, or capital additions of any nature as required by the Operating Company.

In consideration for the services to be rendered by the Service Company as hereinabove provided, the Operating Company agrees to pay to the Service Company the cost of said services. Said cost shall not include a markup for profit. In addition, the Operating Company agrees to pay the Service Company its share of the cost of the investment in the Service Company rate base, including depreciation, amortization, interest on debt and a return on the equity invested.

All costs of the Service Company, including salaries and other expenses, incurred in connection with services rendered by the Service Company for the Operating Companies which can, without excessive effort or expense, be identified and related to services rendered to a particular Operating Company, shall be charged directly to such company. Examples of such costs to be directly allocated include salary and other expenses incurred for specific projects such as rate cases, construction projects, legal proceedings, etc. Similarly, all such costs which may be identified and

related to services rendered to a particular group of the Operating Companies shall be charged directly to such group of the Operating Companies.

All such costs which, because of their nature, cannot, without excessive effort or expense, be identified and related to services rendered to a particular Operating Company, shall be allocated among all the Operating Companies, or, in the case of costs incurred with respect to a particular group of the Operating Companies, among the members of such group, in the manner hereinafter set forth.

First, the allocable costs shall be distributed on an annual basis, unless the Parent should elect to make a supplementary analysis for a special purpose.

Secondly, these costs will be prorated in proportion to the average number of customers of each Operating Company during the calendar year. For purposes of this determination each using customer of a water company and each customer of a sewer company will be counted as one.

Each customer of a water company which is a distribution company only, that is having no source of supply facilities, shall be counted as one-half. Each customer whose charge is for the availability of water or sewer service shall be counted as one-quarter. Each customer whose charge is for the availability of water and sewer service shall be counted as one-half. Each customer of a company that provides water and sewer shall be counted as one and one-half. Further adjustments shall be made as necessary to assure the just and reasonable distribution of expenses.

With regard to costs of maintaining and operating the company's corporate headquarters facilities in Illinois, such costs will be allocated to reflect the fact that the corporate headquarters is also the base of operations for Illinois and Indiana. Costs will first be allocated to Illinois and Indiana based on the number of hours office personnel devote to companies in these states. Once determined, the cost chargeable to companies within Illinois and Indiana will be based on customers. The remaining costs will be charged to companies outside Illinois and Indiana based on customers.

The Service Company will also at any time, upon request of the Operating Company, furnish to it any and all information required by the Operating Company or by any governmental authorities having jurisdiction over the Operating Company with respect to the services rendered by the Service Company hereunder, the cost thereof and the allocation of such cost among the Operating Companies. In the case of services in connection with construction, the Service Company will, to the extent practicable, furnish to the Operating Company such information as shall be necessary to permit the allocation of charges for such services to particular work orders.

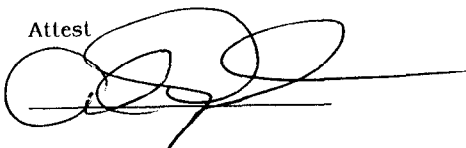
This Agreement shall be in full force and effect from the date as hereinabove mentioned and shall continue in full force and effect until termination by either of the parties hereto upon ninety days notice in writing.

IN WITNESS WHEREOF, the Service Company and the Operating Company have caused these presents to be signed in their respective corporate names by their respective Presidents or Vice Presidents, and attest by their respective Secretaries or Assistant Secretaries, all as of the day and year first above written.

Water Service Corp.

BY Carl J. Wey

Attest



Utilities, Inc. - Holiday Hills Utilities, Inc.

BY 

Attest

Carl J. Wey

CUSTOMER EQUIVALENTS 10/31/00			CUSTOMERS	CUSTOMER EQUIVALENTS	% BY STATE	% WITHIN STATE
ILLINOIS						
A. USAGE						
014	Camelot	W S	203	305	0.174%	2.4%
018	Charmar	W	53	53	0.030%	0.4%
022	Cherry Hill	W	235	235	0.134%	1.9%
026	Clarendon	W	477	477	0.272%	3.8%
034	County Line	W	120	120	0.068%	1.0%
038	Del Mar DISTRIBUTION ONLY	W	83	42	0.024%	0.3%
042	Ferson Creek	W S	376	564	0.322%	4.5%
046	Galena Territory	W	1,804			
046	Galena Territory	S	839	2,224	1.269%	17.6%
048	Harbor Ridge	W	284			
048	Harbor Ridge	S	284	426	0.243%	3.4%
049	Great Northern	W	360	360	0.205%	2.9%
050	Killarney	W	349	349	0.199%	2.8%
066	Northern Hills	W	172			
066	Northern Hills	S	186	272	0.155%	2.2%
070	Lake Marian	W	277	277	0.158%	2.2%
082	Valentine	W	71	71	0.041%	0.6%
086	Walk-up Woods	W	220	220	0.125%	1.8%
090&062	Whisp.Hills/Pist./Sun	W	2,163	2,163	1.234%	17.3%
096	Medina	S	505	505	0.288%	4.0%
098	Cedar Bluff	S	132	132	0.075%	1.1%
B. AVAILABILITY SYSTEMS						
011	Apple Canyon Usage	W	662			
010	Apple Canyon Avail (Split)		2,033	1,170	0.667%	9.4%
055	Lake Holiday Usage	W	1,717			
054	Lake Holiday Avail (Split)		368	1,809	1.032%	14.5%
059	Lake Wildwood Usage	W	385			
058	Lake Wildwood Avail (Split)		1,404	736	0.420%	5.9%
TOTAL ILLINOIS			16,341	12,510	7.136%	100.0%
TOTAL VIRGINIA			4,600	3,060	1.745%	
TOTAL LOUISIANA			15,829	11,917	6.798%	
TOTAL INDIANA			5,724	4,303	2.455%	
TOTAL OHIO			1,155	585	0.334%	
TOTAL SOUTH CAROLINA			22,548	18,478	10.540%	
TOTAL NORTH CAROLINA			57,592	40,851	23.303%	
TOTAL FLORIDA			72,441	54,104	30.862%	
TOTAL GEORGIA			9,338	6,511	3.714%	
TOTAL MISSISSIPPI			1,736	1,736	0.990%	
TOTAL TENNESSEE			495	495	0.282%	
TOTAL MARYLAND			6,923	5,807	3.312%	
TOTAL PENNSYLVANIA			4,696	3,392	1.935%	
TOTAL NEW JERSEY			1,053	894	0.510%	
TOTAL NEVADA			5,886	5,818	3.319%	
TOTAL ARIZONA			4,847	4,847	2.765%	
GRAND TOTAL ALL STATES			231,204	175,307	100.000%	100.0%

CUSTOMER EQUIVALENTS 10/31/00			CUSTOMERS	CUSTOMER EQUIVALENTS	% BY STATE	% WITHIN STATE
ILLINOIS						
A. USAGE						
014	Camelot	W S	203	305	0.174%	2.4%
018	Charmar	W	53	53	0.030%	0.4%
022	Cherry Hill	W	235	235	0.134%	1.8%
026	Clarendon	W	477	477	0.272%	3.7%
034	County Line	W	120	120	0.068%	0.9%
038	Del Mar DISTRIBUTION ONLY	W	83	42	0.024%	0.3%
042	Ferson Creek	W S	376	564	0.321%	4.4%
046	Galena Territory	W	1,804			
046	Galena Territory	S	839	2,224	1.267%	17.6%
048	Harbor Ridge	W	284			
048	Harbor Ridge	S	284	426	0.243%	3.3%
049	Great Northern	W	360	360	0.205%	2.8%
050	Killarney	W	349	349	0.199%	2.7%
066	Northern Hills	W	172			
066	Northern Hills	S	186	272	0.155%	2.1%
070	Lake Marian	W	277	277	0.158%	2.2%
082	Valentine	W	71	71	0.040%	0.6%
086	Walk-up Woods	W	220	220	0.125%	1.7%
090&062	Whisp.Hills/Pist./Sun	W	2,163	2,163	1.232%	17.0%
096	Medina	S	505	505	0.288%	4.0%
098	Cedar Bluff	S	132	132	0.075%	1.0%
B. AVAILABILITY SYSTEMS						
011	Apple Canyon Usage	W	662			
010	Apple Canyon Avail (Split)		2,033	1,170	0.666%	9.2%
055	Lake Holiday Usage	W	1,717			
054	Lake Holiday Avail (Split)		368	1,809	1.030%	14.2%
059	Lake Wildwood Usage	W	385			
058	Lake Wildwood Avail (Split)		1,404	736	0.419%	5.8%
	Holiday Hills Utilities, Inc.	W	240	240	0.137%	1.9%
	TOTAL ILLINOIS		16,581	12,750	7.263%	100.0%
	TOTAL VIRGINIA		4,600	3,060	1.743%	
	TOTAL LOUISIANA		15,829	11,917	6.788%	
	TOTAL INDIANA		5,724	4,303	2.451%	
	TOTAL OHIO		1,155	585	0.333%	
	TOTAL SOUTH CAROLINA		22,548	18,478	10.526%	
	TOTAL NORTH CAROLINA		57,592	40,851	23.272%	
	TOTAL FLORIDA		72,441	54,104	30.820%	
	TOTAL GEORGIA		9,338	6,511	3.709%	
	TOTAL MISSISSIPPI		1,736	1,736	0.989%	
	TOTAL TENNESSEE		495	495	0.282%	
	TOTAL MARYLAND		6,923	5,807	3.308%	
	TOTAL PENNSYLVANIA		4,696	3,392	1.932%	
	TOTAL NEW JERSEY		1,053	894	0.509%	
	TOTAL NEVADA		5,886	5,818	3.314%	
	TOTAL ARIZONA		4,847	4,847	2.761%	
GRAND TOTAL ALL STATES			231,444	175,547	100.000%	100.0%

Holiday Hills Utilities, Inc.
Operating Statement
For the year ended 1999

ELN Exhibit 3

	Per Annual Report 12/31/99	Estimated Pro Forma
Revenues	\$ <u>61,473</u>	\$ <u>61,473</u>
Operating Expenses		
Salaries	18,830	16,679 [a]
Pension & Benefits		2,480 [a]
Purchased Power	2,278	2,734 [b]
Chemicals	2,705	2,705 [c]
Matenance and Supplies		11,602 [d]
Contractual Services	5,960	717 [a]
Rent	1,548	105 [a]
Transportation Exp.		784 [a]
Insurance Exp.	2,991	1,970 [a]
Miscellaneous	<u>13,184</u>	<u>4,866</u> [d]
Total Operating Expenses	\$ <u>47,496</u>	\$ <u>44,642</u>
Depreciation	4,473	4,506 [e]
Taxes Other Than Income	3,549	3,549 [c]
Total Utility Expense	<u>55,518</u>	<u>52,697</u>
Interest Exp.	1,868	4,735 [f]
Net Income/ (Loss)	\$ <u><u>4,087</u></u>	\$ <u><u>4,041</u></u>

[a] Estimated using Cherry Hill Utilities, Inc. 1999 annual report (a sister company). Cherry Hill has 235 water customers.

[b] Puchased Power Expense is estimated to increase with the new well online.

[c] Assume relatively the same as seller's cost.

[d] Matenance and Supplies expense is also estimated using Cherry Hill Utilities, Inc. (The 1999 Community Service Corporation Annual Report did not break out maintenance and supply expense from miscellaneous expense. The Pro Forma Statement shows a substantial increase to maintenance expense and decrease to miscellaneous expense.

[e] Depreciation Expense is based on 1999 plant less contributions in aid of construction.

[f] Interest is computed using Utilities, Inc.'s capital structure of 53.30% Debt and 47.70% equity and the embedded cost of debt of 8.55%.

Note: This operating statement is based on estimates. The preparer of these estimates cannot express an opinion on the accuracy of the current owners bookkeeping and accounting methods.